



The OPEB Challenge for Municipalities

Massachusetts Municipal Association

presented to the Special Commission to Investigate and
Study Retiree Healthcare and Other Non-Pension Benefits

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What is OPEB?

- OPEB is Other Post Employment Benefits- the set of benefits offered to a retiree other than their pension. OPEB is mainly health insurance, including: medical, dental, Medicare Part B premiums, drugs, etc.
- The OPEB liability consists of the government entity's [state, municipality, regional school district, etc.] share of health insurance costs for a retiree (plus dependents) from the time he/she time retires until he/she dies, plus the gov't entity's share of health insurance costs for eligible surviving spouses (plus dependents) until the survivor's death or remarriage. For Medicare-eligible retirees and survivors (most retirees/survivors age 65 and over), this cost is offset by federal Medicare funds
- OPEP liability is the present value of the government entity's share of retirees benefits for those who are retired, as well as for those who have a right to retire at a future date (i.e. those with vested pension rights)

Statutes and Requirements

- M.G.L. Chapters 32 and 32B govern municipal retirees and public employee benefits
- **Who's eligible for benefits?** Currently retirees are eligible for health care benefits after 10 years of service if they've worked at least 20 hours per week and are at least age 55. [note- benefits can begin before age 55 for employees in Groups 2 or 4]
- Effective July 1, 2011, M.G.L. Chapter 32B, Section 20 allows municipalities to establish a Trust Fund for Other Post Employment Benefit Liabilities

Government Accounting Standards Board [GASB]- reporting requirements [Effective December 2006- 2008 depending on total municipal revenue]

- Statement No. 43, *Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses accounting by plans that administer OPEB
- Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes accounting and reporting requirements for state and local government employers that provide OPEB
- These are reporting requirements—NOT requirements to pre-fund. Reports are typically made available to bond rating agencies and are now also shared with PERAC

The OPEB burden for municipalities

Why this is such a concern:

- Most communities pay at least 50% of the premium of generous benefits
- Health care costs are rising at a rate higher than revenues
- Large numbers of public employees retiring starting with the baby boomers in 2011
- Lack of parity- most private sector companies have reduced or eliminated this benefit

The unfunded OPEB liability

- National liability: FY2009, \$1.26 trillion
- Massachusetts:
 - State liability: \$16.2 billion
 - Municipal liability: \$25-30 billion
 - Massachusetts total liability: \$40-45 billion

Total benefit costs rose from 13.5% of municipal budgets statewide in 2001 to 20% in 2010, and if nothing changes could consume 1/3 of municipal budgets by 2020.

www.pewcenteronthestates.org

www.masstaxpayers.org

The impact on municipalities

- The liability for just the largest 50 municipalities in the state is \$20 billion. The liability represents how much the city would have to set aside today to pay for the current retirees and active employees already eligible for benefits
- Unfunded OPEB liabilities are double that of pension liabilities
- Unfathomable property tax increases and/or devastating cuts in municipal services and jobs would be necessary to fund these liabilities

Examples: the cities of Worcester and Brockton

Worcester	Brockton
OPEB liability: \$765 million	OPEB liability: \$694 million
Pension liability: \$308 million	Pension liability: \$114 million
Liability as share of median household income of \$44,500: \$26%	Liability as share of median household income of \$48,800: 41%
What each single family homeowner in the city would owe to close the gap: \$11,600	What each single family homeowner in the city would owe to close the gap: \$19,800

Differences between municipal and state systems

- State pays a set percentage for retirees based on when they started employment; municipalities at local option can pay anything above 50%
- There are 123,400 state employees and 260,600 municipal employees– more than double the employees and therefore retirees [February 2012]
- A higher percentage of municipal employees than state employees are public safety and can retire before age 55
- Teacher pensions are a state burden whereas retired teacher's health insurance costs are a municipal cost- helps to explain why retiree health insurance is such a larger expense on the municipal side